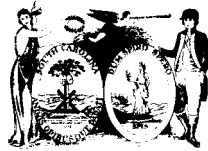


State of South Carolina



Office of the State Auditor

1401 MAIN STREET, SUITE 1200
COLUMBIA, S.C. 29201

THOMAS L. WAGNER, JR., CPA
STATE AUDITOR

(803) 253-4160
FAX (803) 343-0723

October 17, 2002

Ms. Linda A. Holtzscheiter, Reimbursement Manager
Mariner Post-Acute Network
15415 Katy Freeway, Suite 800
Houston, Texas 77094

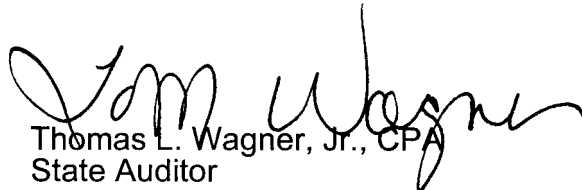
Re: AC# 3-PGV-J9 – GCI Prince George, Inc., d/b/a Prince George Healthcare Center

Dear Ms. Holtzscheiter:

The accompanying report has been prepared by our office based on your Medicaid Financial and Statistical Report submitted to the Department of Health and Human Services for the cost report period October 1, 1998 through September 30, 1999. That report was used to set the rate covering the contract period beginning October 1, 2000.

We are recommending that the Department of Health and Human Services certify an accounts receivable to recover amounts due as a result of the rate change shown on Exhibit A. You will be notified of repayment terms by that Agency.

If you take exception to this report in any manner, you have the right to appeal in accordance with the Code of Laws of South Carolina, 1976 as amended, Title 44, and Department of Health and Human Services Regulation R.126-150, and you must respond in writing within thirty (30) calendar days of the date of this letter. This written response must address the specific items in the report being appealed, and must be directed to the Appeals and Hearings, Department of Health and Human Services, Post Office Box 8206, Columbia, South Carolina 29202-8206. Any correspondence should include the control number appearing on Exhibit A of this report.


Thomas L. Wagner, Jr., CPA
State Auditor

TLWjr/sag

cc: Ms. Brenda L. Hyleman
Mr. Jeff Saxon
Mr. Joseph P. Hayes

**GCI PRINCE GEORGE, INC.
D/B/A PRINCE GEORGE HEALTHCARE CENTER**

GEORGETOWN, SOUTH CAROLINA

**CONTRACT PERIOD
BEGINNING OCTOBER 1, 2000
AC# 3-PGV-J9**

**AGREED-UPON PROCEDURES REPORT
ON CONTRACT
FOR
PURCHASE OF NURSING CARE SERVICES
WITH
STATE OF SOUTH CAROLINA
DEPARTMENT OF HEALTH AND HUMAN SERVICES**

CONTENTS

	<u>EXHIBIT OR SCHEDULE</u>	<u>PAGE</u>
INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES		1
COMPUTATION OF RATE CHANGE FOR THE CONTRACT PERIOD BEGINNING OCTOBER 1, 2000	A	3
COMPUTATION OF ADJUSTED REIMBURSEMENT RATE FOR THE CONTRACT PERIOD OCTOBER 1, 2000 THROUGH SEPTEMBER 30, 2001	B	4
SUMMARY OF COSTS AND TOTAL PATIENT DAYS FOR THE COST REPORT PERIOD ENDED SEPTEMBER 30, 1999	C	5
ADJUSTMENT REPORT	1	7
COST OF CAPITAL REIMBURSEMENT ANALYSIS	2	11

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

September 18, 2002

Department of Health and Human Services
State of South Carolina
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the South Carolina Department of Health and Human Services, solely to compute the rate change and related adjusted reimbursement rate to be used by the Department in determining the reimbursement settlement with GCI Prince George, Inc., d/b/a Prince George Healthcare Center, for the contract period beginning October 1, 2000, and for the twelve month cost report period ended September 30, 1999, as set forth in the accompanying schedules. The management of GCI Prince George, Inc., d/b/a Prince George Healthcare Center is responsible for the Financial and Statistical Report for Nursing Homes and supporting accounting and statistical records. This agreed-upon procedures engagement was performed in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the Department of Health and Human Services. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

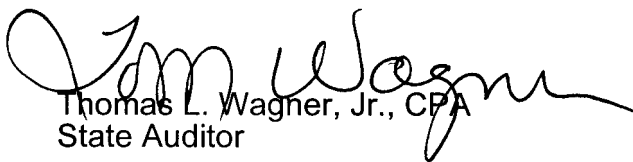
The procedures and the associated findings are as follows:

1. We tested selected costs or areas based on our analytical procedures applied to the reimbursable Medicaid program costs as shown on the Financial and Statistical Report for Nursing Homes, as filed by GCI Prince George, Inc., d/b/a Prince George Healthcare Center, to determine if these costs were allowable as defined by the State Plan for Medicaid reimbursement purposes and supported by accounting and statistical records maintained by the provider. Our findings as a result of these procedures are presented in the Adjustment Report, Summary of Costs and Total Patient Days, and Cost of Capital Reimbursement Analysis sections of this report.
2. We recomputed the Computation of Reimbursement Rate using the adjusted costs and calculated the rate change in accordance with the provisions of the contract between the Department of Health and Human Services and GCI Prince George, Inc., d/b/a Prince George Healthcare Center dated as of September 30, 1994 as amended. Our findings as a result of these procedures are presented in the Computation of Rate Change and Computation of Adjusted Reimbursement Rate sections of this report.

Department of Health and Human Services
State of South Carolina
September 18, 2002

These agreed-upon procedures do not constitute an audit of financial statements or any part thereof, the objective of which is the expression of an opinion on the financial statements or a part thereof. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the South Carolina Department of Health and Human Services and is not intended to be and should not be used by anyone other than the specified party.


Thomas L. Wagner, Jr., CPA
State Auditor

PRINCE GEORGE HEALTHCARE CENTER

Computation of Rate Change
For the Contract Period
Beginning October 1, 2000
AC# 3-PGV-J9

10/01/00-
09/30/01

Interim Reimbursement Rate (1)	\$98.40
Adjusted Reimbursement Rate	<u>94.91</u>
Decrease in Reimbursement Rate	\$ <u><u>3.49</u></u>

- (1) Interim reimbursement rate from the South Carolina Medicaid Management Information System (MMIS) Provider Rate Listing dated January 25, 2002

PRINCE GEORGE HEALTHCARE CENTER
Computation of Adjusted Reimbursement Rate
For the Contract Period October 1, 2000 Through September 30, 2001
AC# 3-PGV-J9

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$45.03	\$54.01	
Dietary		8.99	10.12	
Laundry/Housekeeping/Maintenance		<u>6.52</u>	<u>8.88</u>	
Subtotal	<u>\$5.11</u>	60.54	73.01	\$60.54
Administration & Medical Records	<u>\$ -</u>	<u>12.91</u>	<u>10.55</u>	<u>10.55</u>
Subtotal		73.45	<u>\$83.56</u>	71.09
<u>Costs Not Subject to Standards:</u>				
Utilities		2.13		2.13
Special Services		.87		.87
Medical Supplies & Oxygen		3.94		3.94
Taxes and Insurance		2.22		2.22
Legal Fees		<u>.17</u>		<u>.17</u>
TOTAL		<u>\$82.78</u>		80.42
Inflation Factor (3.20%)				2.57
Cost of Capital				8.26
Cost of Capital Limitation				-
Profit Incentive (Max. 3.5% of Allowable Cost)				-
Cost Incentive				5.11
Effect of \$1.75 Cap on Cost/Profit Incentives				(3.36)
Nurse Aide Staffing Add-On 10/01/99				.18
Nurse Aide Staffing Add-On 10/01/00				<u>1.73</u>
 ADJUSTED REIMBURSEMENT RATE				 <u>\$94.91</u>

PRINCE GEORGE HEALTHCARE CENTER
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 1999
AC# 3-PGV-J9

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	Adjustments <u>Debit</u>	<u>Credit</u>	<u>Adjusted Totals</u>
General Services	\$2,343,308	\$ 6,660 (5) 536 (12)	\$ 1,332 (2) 8,742 (7) 366 (7) 1,160 (8) 3,813 (13)	\$2,335,091
Dietary	511,629	12,551 (12)	5,098 (2) 1,071 (7) 39,293 (10) 12,402 (13)	466,316
Laundry	13,976	36 (12)	498 (13)	13,514
Housekeeping	238,899	5,531 (12)	46,045 (13)	198,385
Maintenance	131,357	34 (9) 31,510 (12)	236 (7) 8,058 (11) 28,535 (13)	126,072
Administration & Medical Records	736,259	2,779 (4) 25,676 (12) 1,748 (12)	452 (2) 1,264 (7) 80 (7) 909 (8) 72,101 (9) 7,110 (10) 13,320 (13) 1,745 (13)	669,481
Utilities	110,003	134 (9) 26,386 (12)	677 (11) 25,297 (13)	110,549
Special Services	46,197	48,298 (10)	270 (7) 49,213 (8)	45,012
Medical Supplies & Oxygen	262,240	-	2,656 (2) 6,660 (5) 46,151 (6) 850 (8) 1,372 (10)	204,551
Taxes and Insurance	162,102	8,870 (9) 37,127 (12)	58,213 (3) 14,668 (4) 20,224 (13)	114,994

PRINCE GEORGE HEALTHCARE CENTER
 Summary of Costs and Total Patient Days
 For the Cost Report Period Ended September 30, 1999
 AC# 3-PGV-J9

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	Adjustments <u>Debit</u>	<u>Credit</u>	Adjusted <u>Totals</u>
Legal Fees	14,374	569 (12)	6,018 (9) 309 (13)	8,616
Cost of Capital	390,767	54,033 (12) 34,720 (14)	9,383 (1) 40,747 (9) <u>1,201 (13)</u>	428,189
Subtotal	4,961,111	297,198	537,539	4,720,770
Ancillary	54,920	33,305 (6)	-	88,225
Non-Allowable	800,823	9,383 (1) 58,213 (3) 11,889 (4) 12,846 (6) 12,029 (7) 52,132 (8) 109,828 (9) 10,478 (11) <u>153,389 (13)</u>	523 (10) 195,703 (12) 34,720 (14)	1,000,064
Total Operating Expenses	<u>\$5,816,854</u>	<u>\$760,690</u>	<u>\$768,485</u>	<u>\$5,809,059</u>
Total Patient Days	<u>51,859</u>	<u>-</u>	<u>-</u>	<u>51,859</u>
Total Beds	<u>148</u>			

PRINCE GEORGE HEALTHCARE CENTER
Adjustment Report
Cost Report Period Ended September 30, 1999
AC# 3-PGV-J9

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Accumulated Depreciation	\$ 261,444	
	Nonallowable	9,383	
	Fixed Assets		\$ 125,338
	Other Equity		136,106
	Cost of Capital		9,383
	To adjust fixed assets and related depreciation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
2	Retained Earnings	9,538	
	Nursing		1,332
	Dietary		5,098
	Administration		452
	Medical Supplies		2,656
	To properly charge expense applicable to the prior period HIM-15-1, Section 2302.1		
3	Nonallowable	58,213	
	Taxes and Insurance		58,213
	To adjust liability insurance expense HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
4	Nonallowable	11,889	
	Administration	2,779	
	Taxes and Insurance		14,668
	To disallow expense due to lack of documentation and reclassify expense to the proper cost center HIM-15-1, Section 2304 DH&HS Expense Crosswalk		
5	Restorative	6,660	
	Medical Supplies		6,660
	To reclassify expense to the proper cost center DH&HS Expense Crosswalk		

PRINCE GEORGE HEALTHCARE CENTER
Adjustment Report
Cost Report Period Ended September 30, 1999
AC# 3-PGV-J9

ADJUSTMENT <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
6	Ancillary	33,305	
	Nonallowable	12,846	
	Medical Supplies		46,151
	To reclassify prescription drug expense to the proper cost center and disallow expense due to lack of documentation HIM-15-1, Section 2304 DH&HS Expense Crosswalk		
7	Nonallowable	12,029	
	Nursing		8,742
	Restorative		366
	Dietary		1,071
	Maintenance		236
	Administration		1,264
	Medical Records		80
	Special Services		270
	To adjust fringe benefits and related allocation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
8	Nonallowable	52,132	
	Restorative		1,160
	Administration		909
	Medical Supplies		850
	Special Services		49,213
	To adjust expense to cost of related organization HIM-15-1, Section 1000		
9	Maintenance	34	
	Utilities	134	
	Taxes and Insurance	8,870	
	Nonallowable	109,828	
	Administration		72,101
	Legal		6,018
	Cost of Capital		40,747
	To adjust home office cost allocation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		

PRINCE GEORGE HEALTHCARE CENTER
Adjustment Report
Cost Report Period Ended September 30, 1999
AC# 3-PGV-J9

<u>ADJUSTMENT</u> <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
10	Special Services	48,298	
	Dietary		39,293
	Administration		7,110
	Medical Supplies		1,372
	Nonallowable		523
	To adjust special (ancillary) services reimbursed by Medicare State Plan, Attachment 4.19D		
11	Nonallowable	10,478	
	Other Income		1,743
	Maintenance		8,058
	Utilities		677
	To offset income against related expense, disallow cable TV expense, and reverse Provider offset of beauty and barber income HIM-15-1, Section 2102.3, 2106.1 and 2328		
12	Restorative	536	
	Dietary	12,551	
	Laundry	36	
	Housekeeping	5,531	
	Maintenance	31,510	
	Administration	25,676	
	Medical Records	1,748	
	Legal	569	
	Utilities	26,386	
	Taxes and Insurance	37,127	
	Cost of Capital	54,033	
	Nonallowable		195,703
	To reverse DH&HS adjustment to remove indirect cost applicable to non-reimbursable cost centers HIM-15-1, Section 2102.3 State Plan, Attachment 4.19D		

PRINCE GEORGE HEALTHCARE CENTER
Adjustment Report
Cost Report Period Ended September 30, 1999
AC# 3-PGV-J9

ADJUSTMENT			
<u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
13	Nonallowable Restorative Dietary Laundry Housekeeping Maintenance Administration Medical Records Legal Utilities Taxes and Insurance Cost of Capital	153,389	
	To remove indirect cost applicable to non-reimbursable cost centers HIM-15-1, Section 2102.3 State Plan, Attachment 4.19D		
14	Cost of Capital Nonallowable	34,720	34,720
	To adjust capital return State Plan, Attachment 4.19D		
	TOTAL ADJUSTMENTS	\$1,031,672	\$1,031,672

Due to the nature of compliance reporting, adjustment descriptions and references contained in the preceding Adjustment Report are provided for general guidance only and are not intended to be all-inclusive.

PRINCE GEORGE HEALTHCARE CENTER
Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended September 30, 1999
AC# 3-PGV-J9

Original Asset Cost (Per Bed)	\$ 15,618
Inflation Adjustment	<u>2.3156</u>
Deemed Asset Value (Per Bed)	36,165
Number of Beds	<u>148</u>
Deemed Asset Value	5,352,420
Improvements Since 1981	324,263
Accumulated Depreciation at 9/30/99	<u>(926,341)</u>
Deemed Depreciated Value	4,750,342
Market Rate of Return	<u>.060</u>
Total Annual Return	285,021
Return Applicable to Non-Reimbursable Cost Centers	(2,498)
Allocation of Interest to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Annual Return	282,523
Depreciation Expense	151,497
Amortization Expense	2,050
Capital Related Income Offsets	(6,680)
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>(1,201)</u>
Allowable Cost of Capital Expense	428,189
Total Patient Days (Minimum 96% Occupancy)	<u>51,859</u>
Cost of Capital Per Diem	\$ <u><u>8.26</u></u>

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